

Dispelling the Myth Between Short-Term Rentals and the Housing Crisis

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Introduction

The short-term rental (or STR) market plays a key enabling role for the new tourism sector and provides new income channels for Governments. STRs are essential to regional economies by providing tourists with distinctive and reasonably priced experiences, producing sizable amounts of tax revenue to support local governments and afford property hosts with new income streams.

In this article, the Asia Internet Coalition (AIC) aims to dispel the myth between STRs and the housing crisis. Housing affordability and availability is a problem that community leaders should be worried about, but STRs have little effect on this issue and are not its primary cause. While we are witnessing rising housing and rent prices in several global markets, it would be disproportionate to single out Short-Term Rentals as a factor for such increases amidst a global inflationary wave. Moreover, housing crises in different markets are driven by unique economic and planning factors, which can only be solved through partnerships between communities, government and industry.

Importantly, restrictive STR regulations would be detrimental, particularly in tourist-dependent areas. Such regulations restrict the number of tourists accommodated, ensure lower tax revenues for state and local governments, and deny STR hosts income from vacant properties. There is no proof that stringent STR policies, particularly in tourist-dependent areas, can successfully address severe housing scarcity. Effective and innovative strategies are needed to address the housing shortage and promote sustainable development.

Therefore, we would like to present our industry viewpoints on the following topics:

The impact of the short-term rental market in the Asia Pacific region

Short-term rentals as a scapegoat for the housing crisis

Alternative solutions and recommendations

1. Short-Term Rental Market in Asia Pacific and its impact

Over the past few years, the short-term rental (STR) market has experienced significant growth, with Europe and North America dominating the segment. However, it is expected that the Asia Pacific region will become the most promising market in the coming years, largely due to the increase in tourism resulting from favorable macroeconomic and demographic conditions (except for the pandemic years). The STR

market in Asia Pacific is projected to grow to US\$29.74 billion in 2023. Revenue is expected to show an annual growth rate (CAGR 2023-2027) of 4.56%, resulting in a projected market volume of US\$35.55 billion by 2027.

The growth of the STR market in Asia Pacific has multiple positive externalities for a country, both from an economic and social perspective. For example, STRs for private properties can boost the tourism industry and provide a new channel for government tax revenue. As an example, travel on Airbnb alone has generated more than \$4 billion in tax revenue around the world.

Additionally, STRs are increasingly becoming a sustainable and cost-effective alternative to hotels, as demonstrated in Malaysia, where Penang hotels recorded close to 100 per cent occupancy rate for the first time in December 2022. The availability of STRs helped soften the supply and price of accommodation during peak periods.

It is also noteworthy that STRs do not necessarily compete with traditional hotels and are often complementary. For example, digital nomads prefer STRs for longer stays. Those travelling with large family groups also opt for STR properties for practical reasons. In this case, STRs offer opportunities to stay in unique properties in Asia.

STRs are also starting to play a prominent role in the medical tourism sector, which is expected to reach USD 575.9 billion in the Asia Pacific region by 2029. Private healthcare industry reports have highlighted that many patients seeking treatment were forced to cancel their medical appointments due to fully booked or inadequate hotel accommodations, particularly during peak seasons as seen in South Korea. Promoting linkages with STRs can make the medical and hospitality sector more competitive while allowing the government to earn a portion of the rental income.

From a social aspect, the STR market provides opportunities for citizens to participate in the digital economy by using digital platforms to create new income streams. This is particularly valuable in countries that are just beginning to open up after months of slow growth, inflation, and rising living costs in the post-pandemic world.

2. Short-Term Rentals Being Made a Housing Scapegoat

Typically, less than 1% of all housing supply consists of vacation rentals, which have almost no effect on housing affordability. The global housing crisis is a serious issue affecting 1.6 billion people worldwide according to the World Bank. The cost of housing has risen faster than incomes in most countries. This has resulted in a lack of affordable housing to buy or rent. While the growth of STR platforms has been debated, it would be unfair to solely blame this industry for the crisis.

In Asia, where some of the world's costliest and fastest-growing housing markets are located, renters spend over half their income on housing costs. Upon further study, we find that the result of this housing crisis is multi-layered which includes:

Sticky wages where income doesn't match the rising living costs for many citizens. As disposable income shrinks, it becomes more costly to rent/purchase properties.

There is also a disconnect in housing policies that should be considered. In many countries, political decisions around housing are typically made at the federal level, with little input from regional governments and the disconnect between national and subnational governments prevents funding from reaching where

it is needed most.

Further, housing developers also play a critical role in the crisis as the high cost of production and expensive land choke create scarcity, with short-term rentals being blamed for the issue. In Malaysia, economists warn policymakers of an imminent housing crisis due to a grave mismatch in supply and demand for affordable housing. Private developers continue to focus on building homes that most Malaysians cannot afford, with only a small percentage of new launches being in the affordable segment.

Relatedly, for many years, Australia has made insufficient investments in social and affordable homes. The “Give Me Shelter” report, released in June 2022 by the “Housing All Australians” campaign, claims that between 2001 and 2016, while the nation’s population increased by over 25%, the total supply of social housing decreased by 2.5%. Additionally, the share of communal housing in all dwellings has decreased from 6% in 1996 to 4% in the present. Delaying decisive action on building new affordable housing will only make the situation worse. Robert Pradolin, the founder of “Housing All Australians,” has also criticized the STR industry’s continued use as a scapegoat and said that such blaming would not help to resolve the long-running housing problem.

Investment in social and affordable housing is thus a crucial component of a nation’s economic infrastructure that will ultimately generate positive long-term economic returns.

3. Alternative Solutions and Recommendations

While the AIC is not opposed to regulations, we believe that any regulations introduced by governments for the digital economy should be flexible enough to accommodate the growth and evolution of the industry without hindering innovation or economic growth. The following considerations should be factored:

Digital Registration of STRs: Registration of STRs could allow policymakers to develop data-driven and bespoke regulations that avoid a one-size-fits-all solution. This would also allow governments and STR platforms to work more closely to address local matters more responsively, with spillover benefits for tourism and housing demand planning. Registration should also be the responsibility of the hosts rather than the platforms. We must also remain cognizant that over-regulation and onerous registration processes could either force the industry underground or kill it off entirely. Regulators can look at some best practices such as Portugal’s national portal for STR license registration, and online portals for host registration in French cities, when developing these systems.

Leverage voluntary frameworks: Voluntary ‘Code of Conduct’ style frameworks, such as the one adopted by New South Wales in Australia, are tried and tested means which help empower STR platforms and hosts to self-regulate. This would set up a formal governance framework for STR properties without the need for regulations that entail high enforcement and monitoring costs.

Quantitative Restrictions: Loss of privacy and overuse of common amenities, which are the main reasons for resident complaints, can be addressed with a light-touch regulatory framework. Residential areas subsidized by the government should not be allowed to offer STR services, but private accommodations should be given the flexibility to do so.

We are of the view that Asia Pacific's STR industry is not to blame for the housing crisis but will rather provide several opportunities for both consumers and companies offering online services. Therefore, any consideration of regulation must be done through an inclusive public policy development process. As such, the AIC stands ready to consult with governments and industry stakeholders on these matters.

The Asia Internet Coalition is an industry association of leading Internet and technology companies. AIC seeks to promote the understanding and resolution of Internet and ICT policy issues in the Asia Pacific region. Our members include some of the most innovative and prestigious technology companies in the world and our mission is to represent the internet industry and participate and promote stakeholder dialogue between the public and private sectors, sharing best practices and ideas on internet technology and the digital economy. For questions and media queries please contact the AIC Secretariat at Secretariat@aicasia.org

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